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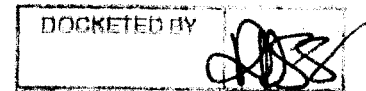
Mail Station 9649
PO Box 53999
Phoenix, AZ 85072-3999
Tel 602-250-2154
Eran.Mahrer@aps.com

Arizona Corporation Commission
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MAY 24 2011

May 24, 2011

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007



**Re: Arizona Public Service Company's 2011 RES Incentive Update
Docket Nos. E-01345A-10-0166 and E-01345A-10-0262**

To Whom It May Concern:

Arizona Public Service Company ("APS" or "Company") would like to take this opportunity to provide a status update on the allocation of APS's Renewable Energy Standard ("RES") residential photovoltaic ("PV") incentive funds for 2011. Through the first half of 2011 customer demand for residential distributed energy ("DE") funding for PV projects remains strong. Currently, the Company is receiving an average of 75 PV applications per week for residential DE incentives. The continued high demand for residential DE incentives will soon require APS to curtail its authorization of incentive funding consistent with the approved 2011 program, as described in this letter.

The residential DE incentive funding mechanism that was approved by the Arizona Corporation Commission ("Commission") for calendar year 2011 has two types of incentive offerings: 1) the "standard residential incentive," which is a cost-per-watt financial incentive with a market-driven "step-down" mechanism that reduces the incentive funding level based on the quarterly budget thresholds; and 2) a "Rapid Reservation" component, which allows all residential PV applications that request incentives of \$1.00 per watt or less to be confirmed upon receipt.¹ The Commission also realigned the incentive year to match the calendar year, noting that this was "an important part of providing customers and installers with a clear and readily understandable communication regarding annual activity."²

In addition to authorizing the \$40.2 million budget for standard residential incentives in 2011, the Commission approved a \$2.5 million budget designated for Rapid Reservations, specifying that any excess Rapid Reservation funds that had not been committed by September 30, 2011 would revert to the standard residential incentive for use on or after October 1, 2011.³ The Commission further directed APS to limit the amount of spending of the approved marketing and outreach budget to 69% during the first half of 2011.⁴ If the residential incentive funds were

¹ Decision No. 72022 (Dec. 10, 2010), as amended by Decision No. 71274 (Feb. 11, 2011).

² Decision No. 72022 at 13.

³ Decision No. 71274 at 5.

⁴ A \$4.3 million marketing and outreach budget was approved.

exhausted on or before June 30, 2011, the Commission ordered APS to reallocate 75% of the remaining marketing and outreach funds to supplement Rapid Reservations.⁵

As of May 20th, there remains approximately \$2.5 million for the standard residential DE incentive program, and \$2.5 million of Rapid Reservation funds.⁶ APS anticipates that the standard residential incentive funds will support approximately 250 systems for residential customers. At the rate of 75 applications per week, APS believes that the available funding may be exhausted within the next month. Once these funds are fully allocated, APS will no longer accept applications under its standard residential program; however, APS will continue to offer \$1/watt through its Rapid Reservation program.

Consistent with the Commission order, the following describes how APS plans to administer the residential incentive program once the standard residential incentive funding has been depleted.

- Funds committed for funding quarters three and four will continue to be disbursed throughout the remainder of the year. APS will release these reserved funds once each respective quarter begins, thus allowing installers to continue to install projects and receive the standard incentive through the end of the year.
- Reserved funds will be reviewed monthly, and funds that become available from cancelled projects will be reallocated towards the then-current incentive. For example, projects cancelled until the standard incentive is exhausted will be reallocated at \$1.45/watt. Projects cancelled thereafter and before October 1st will be reallocated under the \$1.00/watt Rapid Reservation program. Projects cancelled after October 1st will be reallocated at \$1.45/watt on a first-come, first-reserved basis.
- On July 1st, APS will reallocate \$700,000 from the marketing and outreach budget to the Rapid Reservation program. This will result in a total budget of \$3.2 million for the Rapid Reservation program.
- On October 1st, APS will reallocate all unused Rapid Reservation funds to the standard residential incentive program. Assuming there are unused Rapid Reservation funds at this time, APS will reopen its standard residential incentive program on October 1st and will begin accepting applications at \$1.45/watt on a first-come, first-reserved basis.
- Once the 2011 residential incentive funds are completely exhausted, APS will no longer accept applications until the first quarter of 2012, subject to Commission approval of the APS 2012 RES program budget.

⁵ Decision No. 71274 at 4-5.

⁶ These figures are as of May 20, 2011, and are subject to change as APS updates its weekly residential incentive information.

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To assure that interested parties are informed, all of the information provided in this letter will be available to the public on APS's website (aps.com), as well as the Arizona Goes Solar website (ArizonaGoesSolar.org). The status of incentive funding levels, which are updated on a weekly basis, is also available on those websites. Additionally, information about the status of the residential incentive program will be discussed as part of an upcoming stakeholder workshop hosted by APS on Tuesday, May 31st.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eran Mahrer', written over a horizontal line.

Eran Mahrer
Renewable Energy Director

cc: All Parties of Record

Copy of the foregoing mailed/delivered this 24th day of May, 2011, to:

Court Rich
6613 N. Scottsdale Road, Ste. 200
Scottsdale, AZ 85250

Janice Alward
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Steve Olea
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Lyn Farmer
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

C. Webb Crockett
3003 N. Central Ave., Suite 2600
Phoenix, AZ 85012-2913

Scott S. Wakefield
Ridenour, Hinton & Lewis, P.L.L.C
201 N. Central Ave., Suite 3300
Phoenix, AZ 85004-1052